

## Message Text

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PAGE 01 PHNOM 08294 01 OF 02 101239Z

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ACTION EA-14

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 DODE-00

PM-07 H-03 INR-10 L-03 NSAE-00 PA-03 PRS-01 USIA-15

AGR-20 TAR-02 IO-13 IGA-02 COME-00 FRB-02 XMB-07

OPIC-12 LAB-06 SIL-01 RSR-01 EUR-25 ABF-01 /219 W

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R 101145Z AUG 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 2527

LIMITED OFFICIAL USE SECTION 1 OF 2 PHNOM PENH 8294

FOR STATE/AID

E. O. 11652: GDS

TAGS: EFIN, CB

SUBJECT: MEETING WITH GKR OFFICIALS

REF: A. PHNOM PENH 8124; B. PHNOM PENH 5944; C. PHNOM PENH 5896

1. AT THE REQUEST OF THE MINISTER OF FINANCE, THE ACTING ECONOMIC COUNSELOR AND PETER DAVIS MET WITH GKR OFFICIALS AUGUST 4, 1973 TO DISCUSS VARIOUS PROBLEMS. GKR OFFICIALS PRESENT AT THE MEETING WERE KEO MONGKRY, MINISTER OF FINANCE; SOK CHHONG, GOVERNOR OF THE BNC, KIM NGUON TRACH DIRECTOR-GENERAL, MINISTRY OF FINANCE, AND LIV NGUON-SENG, CHIEF OF BUDGET SERVICE, MINISTRY OF FINANCE. ALSO PRESENT WAS IMF REP. WILLIAM EVER.

2. THE MINISTER OF FINANCE OPENED THE MEETING BY STATING THE CURRENT GKR EXPENDITURE PROBLEMS COULD NOT BE MET WITHOUT EXCEEDING DEFICIT FINANCING LIMITATIONS. HE REQUESTED THAT WE GIVE URGENT CONSIDERATION TO RELEASING

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PAGE 02 PHNOM 08294 01 OF 02 101239Z

COUNTERPART FUNDS TO COVER THESE EXPENDITURES. WE STATED

THAT OUR POSITION WAS TO NOT RELEASE ANY MORE COUNTERPART UNTIL THE GKR RAISED WATER AND ELECTRICITY RATES. WE REFERRED TO THE MEETINGS ON ECONOMIC MEASURES HELD IN JUNE DURING WHICH IT WAS AGREED GENERALLY THAT THE GKR WOULD ADOPT THE POLICY OF ELIMINATING SUBSIDIES. SPECIFICALLY IT WAS AGREED TO ELIMINATE SUBSIDIES ON POL PRODUCTS, ELECTRICITY, WATER AND LOCAL RICE. THE ONLY AGREED UPON ACTION REMAINING TO BE TAKEN WAS THAT OF RAISING THE ELECTRICITY AND WATER RATES. APART FROM THE FACT THAT IT HAD BEEN 15 YEARS SINCE ELECTRICITY RATES HAD BEEN RAISED, THE INCREASE WAS NECESSARY TO REFLECT THE INCREASED COST OF POL AND ALSO AS A PRECONDITION FOR AID FINANCING OF THE GENERATORS FROM THE U.S. WE POINTED OUT THAT THERE SEEMED TO BE NO REASON FOR FURTHER DELAY IN INCREASING THE RATES AS THE PUBLIC WAS ALREADY AWARE OF THE PROPOSED INCREASE. OUR POSITION WAS UNDERSTOOD AND THE ISSUE NOT PRESSED. HOWEVER KEO MONGKRY SAID THAT SHOULD THE COUNCIL NOT APPROVE THE INCREASE IN RATES, THE PRIME MINISTER WOULD DISCUSS COUNTERPART RELEASES WITH THE AMBASSADOR. WE SAID THAT WE UNDERSTOOD THAT THE CABINET WOULD CONSIDER THE INCREASES IN ITS AUGUST 7, 1973 MEETING. IF THE RATES WERE INCREASED THEN, WE WOULD IMMEDIATELY RELEASE THE 2.5 BILLION RIELS IN COUNTERPART ALREADY INCLUDED IN THE MILITARY BUDGET SUPPORT PROJECT AGREEMENT.

3. COMMENT: IN ITS AUGUST 7TH MEETING, THE COUNCIL OF MINISTERS DID NOT CONSIDER THE INCREASE OF RATES FOR ELECTRICITY AND WATER. WE ARE TOLD PRIME MINISTER IN TAM HOLDS THE VIEW THAT RATES SHOULD NOT INCREASE UNTIL MORE ELECTRICITY IS MADE AVAILABLE. KEO MONGKRY ADVISED SOHLIN ON AUGUST 9 THAT THE RATE QUESTION WOULD DEFINITELY BE ON THE AGENDA AT TODAY'S (8/10) COUNCIL OF MINISTERS MEETING. ALSO EVER HAS INFORMED US THAT HE IS STRONGLY SUPPORTING OUR POSITION ON INCREASED ELECTRICITY AND WATER RATES IN A LETTER TO THE PRIME MINISTER.

4. THE NEXT PROBLEM TO BE DISCUSSED WAS THE "PRIME D'INTERVENTION" OR THE PROBLEM FOR COMBAT AS WAS HAD PREVIOUSLY CALLED IT ( SEE REFS B AND C). THE ANNUAL COST WAS ESTIMATED AT APPROXIMATELY 1,250 MILLION RIELS AT THE RATE OF 1,500 RIELS PER MONTH PER MAN. THE MINISTER OF FINANCE REQUESTED CONFIRMATION THAT THIS BE SUPPORTED BY COUNTERPART FOR THE REMAINDER OF CY '73. WE REPLIED TO THE EXTENT COUNTERPART WAS AVAILABLE WE WOULD LIMITED OFFICIAL USE

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PAGE 03 PHNOM 08294 01 OF 02 101239Z

SUPPORT THE ADDITIONAL COST.

5. COMMENT: WE HAVE SINCE CONFIRMED TO THE MINISTER THAT SUFFICIENT COUNTERPART FUNDS WOULD BE AVAILABLE TO COVER THE PRIME D'INTERVENTION FOR THE BALANCE OF THIS CALENDAR YEAR.

6. A GENERAL DISCUSSION ON BUDGETARY PROBLEMS FOLLOWED LEADING THE MINISTER OF FINANCE TO STATE THAT A COLLECTIF WAS BEING

PREPARED TO INCORPORATE INTO THE BUDGET THE COSTS OF RECENT MEASURES ANNOUNCED BY THE GOVT IN JUNE AND SOME ADDITIONAL MEASURES RECOMMENDED BY THE IMF. THE TOTAL AMOUNT OF EXPENDITURES IN THE

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PAGE 01 PHNOM 08294 02 OF 02 101229Z

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R 101145Z AUG 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 2528

LIMITED OFFICIAL USE SECTION 2 OF 2 PHNOM PENH 8294

COLLECTIF WOULD BE APPROXIMATELY 16 BILLION RIELS AND WOULD INCLUDE SUBSIDIES CURRENTLY NOT IN THE BUDGET SUCH AS RICE. ORDINARY REVENUE WOULD INCREASE BY ANOUT 2 BILLION RIELS WITH NEW MEASURES BEING RECOMMENDED BY THE IMF. SOK CHHONG MADE IT CLEAR TO THE MINISTER THAT UNLESS THERE WAS AN INCREASE IN REVENUE, IT WOULD NOT BE POSSIBLE TO FINANCE THE 14 BILLION DEFICIT. THE MINISTER INQUIRED WHETHER WE EXPECTED COUNTERPART GENERATIONS TO EXCEED THE PREVIOUSLY INDICATED 13 BILLION RIELS. WE AGREED TO PREPARE A NEW PROJECTION.

7. COMMENT: CURRENT BUDGET HAS ONLY 13.1 BILLION RIELS IN U.S. COUNTERPART REVENUE. WE HAD INTERNALLY PREVIOUSLY ESTIMATED THAT 20 BILLION WOULD BE AVAILABLE FOR RELEASE. OUR NEW ESTIMATE SHOULD BE IN THE SAME AREA. THE IMF RESIDENT ADVISOR BELIEVES 23 BILLION RIELS WILL BE GENERATED; HOWEVER, WE BELIEVE HE HAS NOT ACCOUNTED FOR THE TIME LAG BETWEEN GENERATING, BILLINGS, AND AVAILABILITIES FOR RELEASE.

8. WE DO NOT YET HAVE THE DETAILS OF THE 16 BILLION RIELS IN EXPENDITURES TO BE INCLUDED IN THE COLLECTIF. HOWEVER WE BELIEVE THEY WOULD INCLUDE THE GROSS PURCHASE COST FOR 135,000 LIMITED OFFICIAL USE

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PAGE 02 PHNOM 08294 02 OF 02 101229Z

M/T OF IMPORTED RICE AT APPROXIMATELY 8 BILLION RIELS. THE SALE PROCEEDS OF THIS RICE WILL BE ON THE ORDER OF 5 BILLION RIELS WHICH THE MINISTRY OF FINANCE NEGLECTED TO MENTION IN THE DISCUSSION WE HELD. FURTHER, SOME 2 BILLION IN ESF COUNTERPART NOT CURRENTLY INCLUDED IN THE NATIONAL BUDGET SHOULD BE AVAILABLE FROM OTHER FOREIGN DONORS. THEREFORE THE 14 BILLION RIEL

DEFICIT CONTEMPLATED FOR THE COLLECTIF COULD BE COMPLETELY COVERED BY THE FOLLOWING:

7 BILLION INCREASE IN U.S. COUNTERPART

5 BILLION IN RICE SALE PROCEEDS

2 BILLION IN ESF COUNTERPART FROM OTHER FOREIGN DONORS

14 BILLION

THE ACTUAL AMOUNT TO BE INCLUDED IN THE COLLECTIF IS STILL BEING DISCUSSED AS WE AND EVERE BELIEVE IT APPEARS EXCESSIVE AT 16 BILLION. EVERE SHARES OUR BELIEF THAT THE COLLECTIF CAN BE FINANCED BY RECEIPTS IN SOME FASHION THAT WILL NOT NECESSITATE ADDITIONAL BNC BORROWING.

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## Message Attributes

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